

Gautho, Julia

From: Kevin Maguire <kmaguire831@gmail.com>
Sent: Thursday, February 26, 2026 3:42 PM
To: Margaux Morgan; Gerry Jensen; Clarke, Joe; Westman, Susan; Melinda Orbach; City Clerk; City Council
Subject: 2.26.2026 Agenda Item 8C Comments on FY 2025-26 Mid-Year Budget and Long-Term Revenue Stability

Mayor Morgan and Council Members,

I appreciate the thorough mid-year budget report and the work staff has done to maintain a structurally balanced budget. While the adjustments appear reasonable in the short term, I am concerned about the City's longer-term financial position and the broader context in which these numbers sit.

The report notes that the General Fund beginning balance dropped significantly from the prior year and that we are projecting a relatively modest year-end balance. At the same time, parking citation revenues are underperforming, overtime pressures remain in the Police Department, and several revenue categories are flattening after prior growth. While the net General Fund impact of the proposed amendment is zero, the margin for error appears thin.

This becomes especially important when viewed alongside the pending redevelopment of the Capitola Mall site and the City's reliance on sales tax revenue.

Measure Y is currently helping stabilize revenues. However, if we experience any downturn in retail performance, shifts in consumer behavior, or structural changes to our sales tax base—particularly during or after mall redevelopment—the City could face significant exposure. Redevelopment often includes transitional periods where taxable retail activity declines before new uses are fully operational. If housing replaces a meaningful portion of sales-tax-generating retail, we need to clearly understand how that impacts long-term fiscal sustainability.

Housing contributes property tax and economic activity, but it also increases demand for services—public safety, infrastructure maintenance, parks, and traffic management. If redevelopment reduces net sales tax while increasing service obligations, the City could face structural imbalance within a few fiscal cycles.

Given the current mid-year numbers and the relatively limited fund balance cushion, I respectfully suggest the following:

1. Conduct and publicly share a long-term fiscal impact analysis of the Capitola Mall redevelopment scenarios, including various retail-to-housing ratios.
2. Model the impact of potential sales tax volatility or loss and identify contingency strategies.
3. Evaluate whether new development should include dedicated ongoing revenue mechanisms to offset service impacts.
4. Prioritize rebuilding and maintaining a stronger General Fund reserve position during the upcoming budget cycle.

The mid-year report shows that staff is managing responsibly. However, the larger policy question is whether our revenue structure is resilient enough to support future growth and redevelopment decisions.

I encourage Council to use the FY 2026-27 budget process to connect these financial realities directly to redevelopment planning, so that land use decisions and fiscal sustainability remain aligned.

Thank you for your continued service to Capitola.

Sincerely,
Kevin Maguire